



### **FLEXIBLE EMPLOYMENT AND SOCIAL DIALOGUE DEVELOPMENT 30 NOVEMBER 2010, BRUSSELS**

#### **EMPLOYMENT IN EUROPE 2010 CONFERENCE**

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- Thank you for inviting me to be here today. Before I dig into the issue of the day, let me say a few words about BUSINESSSEUROPE. Our members are 40 central industrial and employers' federations from 34 countries. Taken together, we represent more than 20 million small, medium and large companies. We work together to achieve growth and competitiveness in Europe, including by promoting labour market reforms.
- This brings me to what I want to talk to you about: the crisis, how our labour markets got through it and what we need to do in the recovery but also beyond.
- To start with, a few words on a remarkable phenomenon: the resilience of employment in the crisis. In fact, unemployment in the EU has risen much slower this time than when compared with previous crisis or when compared to the US. Why is this? A key reason was that European companies have done whatever they could to limit job losses. They wanted to avoid losing workers in which they had invested, having to compete after the downturn for skilled workers and be confronted with high costs for hiring and training new workers. A couple of weeks ago, the Economist reported that German workers in industries such as metals, chemicals and machinery can cost up to 32,000€ each to replace.
- In trying to limit job losses, employers were often helped by a constructive attitude of workers and their representatives. In many cases, governments have been of a good support. Short-time working arrangements in particular have been useful. German companies reduced working time by the equivalent of 1.4 million full-time employees. We have seen such innovative and flexible solutions across Europe, not only in Germany.
- Other reasons for employment resilience come from other structural labour market changes which have occurred during the past ten or twenty years such as increased wage flexibility, more flexible working time arrangements (such as working-time accounts).
- Where are we now? During the last few months, economic recovery has gained momentum. The latest forecasts estimate EU growth at up to 2% this year. Unemployment has stabilised or is falling in most countries. But it will take time to



see it fall back to pre-crisis levels. Only when companies are working back up to full capacity, they will start to re-hire.

- Governments have an important role to play in this respect. They should put in place the right incentives for firms to hire as the recovery gathers pace. Across-the-board cuts in non-wage labour costs might be difficult at this moment in time. Yet, targeted hiring subsidies might be a more cost-effective approach. Another policy option is the reform of labour regulation. Many of the jobs lost during the crisis are unlikely to return soon. So it is imperative to facilitate reallocation of workers across sectors and firms.
- We cannot return to business as usual after the crisis. Europe's current challenges are of a different nature and scale compared with the situation ten or twenty years ago. The global workforce has doubled and international competition has increased. Compared to the EU, the BRIC countries have emerged stronger out of the crisis. Their economic clout is growing, spurred on also by a highly motivated, flexible and increasingly skilled workforce. Europe's population is ageing, our workforces shrinking and pressure on the sustainability of our pension systems is growing. The European Commission has estimated that potential annual growth rates will almost be cut in half because our workforce will decrease by forty million people over the next forty years. There will be no automatic return to growth with a shrinking workforce.
- With respect to employment, the key challenge is to put in place policies that maximise the job-content of economic recovery while increasing the efficiency of our labour markets in the long-run. Policies must be designed in such a way that they help workers and companies to adjust. To competition. To change.
- A first key priority for policy makers should therefore be to improve the flexibility of our labour markets. The more flexible labour markets are, the quicker companies are to hire. This is key when economies are starting to pick up such as now.
- Flexibility has obviously always been an important factor when companies make investment and location decisions. Whether one likes it or not, it will become even more so. We better do everything to seize the opportunities it offers rather than fighting a lost battle in trying to resist this trend. As President Obama acknowledged last March: "Workplace flexibility is an issue that affects the strength of our economy -- whether we'll create the workplaces and jobs of the future we need to compete in today's global economy."
- But what do we mean by flexibility? The ease with which employers can adjust the size of their workforce is obviously important. But flexibility is not only about hiring and firing or contractual arrangements. It also concerns the variety in tasks to be performed, workplace location, or wages etc.
- So flexibility has different dimensions. Take working time. Only last week a European Commission study found that employers and workers benefit from flexible working time arrangements. Businesses need to respond to fluctuations in



demand by adjusting working hours. Their sustainability and the jobs of their employees depend on it. Take Germany's job miracle during the crisis. Part of it is explained by the short-time working schemes. But another part is also explained by flexible labour arrangements that enabled positive balances on working-time accounts to be reduced.

- For their part, workers might want to have flexible schedules to combine work and family life. They should be able to work longer hours than the statutory limits if they would like to do so. That's what modern workforce policies are about. Times are changing and so are needs, lifestyles and attitudes.
- At the same time, it is important to remember that, the daily pattern of working hours has remained surprisingly stable. Moreover, there has been a clear and consistent reduction in working time in the EU.
- This brings me to an important point. By and large, flexibility does not come at the expense of quality of work and employment. A wealth of facts and figures proves that quality of work in Europe is high. Why? Because it is a priority for employers.
- Two years ago, Eurofound reported that Europe has been creating more and better jobs between 1995 and 2006. It showed that the employment expansion in Europe after 1995 was in most cases concentrated in relatively well-paid jobs. A large majority of workers (80%) are satisfied or very satisfied with their work-life balance.
- What about contractual flexibility? There are some who see fixed-term, part-time and related flexible contracts as a threat. Employers must take this concern seriously by explaining in detail the business conditions that are shaping the workplace. At the same time, we must dispel some myths. For instance, we definitely did not see a surge in temporary workers in the EU. The open-ended contract is still held by around 75% of the workforce. Flexible employment is not at the expense of permanent employment. 80% of jobs created by agency work would not have existed if agency work was not an option. Take part-time work. With 80% of part-time workers have chosen to do so voluntarily, clearly this cannot be the precarious form of employment which some claim it to be. Only last July, the OECD concluded that part-time jobs tend to have more family-friendly working hours, better working conditions and less stress.
- Of course, there are situations where reconciling economic and social needs is more challenging. Most of the time, however, workable, tailor-made solutions are found which are mutually satisfactory. Social dialogue naturally plays an important role.
- Let me sum up. I've tried to explain how flexibility has helped firms to preserve jobs during the crisis and how it is here to stay. It is certainly key to the economic outlook over the medium-and long-term.



- But there is more to do to fully exploit the potential of flexible labour markets. The second priority area therefore must be that of skills. As many people as possible should be able to seize the opportunities of flexible labour markets.
- We therefore have the responsibility to equip workers with relevant and transferable skills. Put simply, hiring subsidies and policies aimed at facilitating labour reallocation will not help a lot if workers have the wrong skills. Matching skills supply with demand is key. This is the way to increase employment and to make the most of our workforce, especially when that population is set to shrink.
- Look at what is happening around us. Before the crisis, productivity growth in the US was almost twice as high as in Europe. R&D expenditures are every year 0.8% of GDP higher in the US and 1.5% in Japan. India and China are awash with science, engineering or maths graduates and are increasingly attractive destinations for the production of knowledge-intensive goods and services.
- Ensuring the availability of a skilled workforce in Europe is therefore key. Clearly, this means tertiary educated workers. Stem skills shortages in particular must be addressed. But let me be clear: this will not be enough. Education and training policies should be responsive to the actual needs of existing and emerging sectors. A study by Swedish Enterprise from 2007 revealed that students are generally dissatisfied with the low level of workplace relevance of their studies. And they are right to be unhappy. The same study showed that a higher level of work place relevance of studies leads to approximately 80 euros more in the pay cheque each month for new graduates. It also increases the probabilities of acquiring a qualified job in the first place.
- As I've said, high skills in itself won't do the trick. Companies need employees who can use their education to solve real world problems. Employers increasingly value generic competencies like creativity, entrepreneurship and adaptability. These competences are the main fuel of employee-driven innovation and are conducive to mobility.
- Nor should we forget the importance of improving the basic skills in the work force, for instance numeracy and literacy. In the UK, for example, about half of employers reported in a CBI survey that they were concerned about the low level of these skills among their employees. It is the responsibility of governments to cover the full costs of equipping people with general education and initial skills. Companies should not have to compensate for deficits in such training.
- What about the role of business? European companies regard training of their employees an important investment and they are doing a lot (for example, in 2009 and only in the UK, they invested £39 billion). To further encourage such investments, incentive mechanisms should be created and the bureaucracy surrounding company involvement in training reduced. At the same time, individuals too should be encouraged to upgrade and update their skills. The issue here is one of collective responsibility to improve the employability of our



workforce. A high level of employability is the best protection you can have in today's world.

- Let me conclude. We know what needs to be done. A flexible labour market is one where labour reallocation occurs smoothly and swiftly and where efficiency is maximised due to optimal matching between skills demand and supply.
- This is not just about employment policy. It is also about social and education policies. Unfortunately, we don't see much action or not nearly as fast or comprehensive enough to create the jobs we want and need. One of the few good news stories of this grim recession is how instrumental the degree of trust between employers and workers has been to preserve. Trust, mutual understanding and a shared sense of urgency between unions and employers have proved crucial. Let's now build on that to create jobs and put in place the policies for the future.

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